Postal Regulatory Commission
Submitted 7/3/2018 11:06:58 AM
Filing ID: 105696
Accepted 7/3/2018

BEFORE THE
POSTAL REGULATORY COMMISSION

Section 407 Proceeding	:	**Docket No. IM2018-1**

INITIAL COMMENTS OF UNITED PARCEL SERVICE, INC. ON NOTICE AND ORDER ESTABLISHING SECTION 407 PROCEEDING
(July 3, 2018)

United Parcel Service, Inc. ("UPS") respectfully submits these comments in response to the Postal Regulatory Commission's Notice and Order Establishing Section 407 Proceeding, Dkt. No. IM2018-1 (Jul. 3, 2018) ("Order No. 4567"). This docket relates to the Commission's effort to "solicit comments on the general principles that should guide the Commission's development of views on relevant proposals" related to the UPU and the upcoming Extraordinary UPU Congress.[1]

UPS has no objections to the proposal issued on June 29, 2018, which would amend Article 18 (relating to supplementary services) for the Postal Operations Council to ensure that member countries ensure the provision of tracked delivery service for letter-post items.[2]

But UPS remains concerned about issues related to terminal dues generally, and especially with regard to the fact that, under the terminal dues regime, the Postal Service can charge lower rates to foreign merchants to deliver mail within the United States compared to what it charges U.S. businesses. Some of the American

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[1] Order No. 4367 at 2.
[2] Notice of Posting of Proposal, Dkt. No. IM2018-1 (Jun. 29, 2018), at 4.

businesses harmed by this practice have voiced concerns in this docket. For instance, Dexas International, Ltd., a Texas-based manufacturer, has discussed the negative impact of "Chinese knockoffs of our own products being . . . shipped direct from China to US consumers at absurdly low rates," which has forced Dexas to "seek cost cutting measures including layoffs."[3] Similar concerns have been voiced by other commenters like Pretika Corporation, which states that it is in "desperate need" of assistance in ameliorating terminal dues inequities,[4] Range Kleen, which states that terminal dues are "being used against US businesses like ours to great effect,"[5] and Honey Can Do International LLC, which has decried the "proliferation of copycat products on various retail websites" from overseas merchants that has been exacerbated by Chinese merchants being able to ship goods to the U.S. for a fraction of what U.S. merchants must pay.

UPS shares the U.S. Chamber of Commerce's concern that "U.S. merchants and manufacturers are placed at an economic disadvantage to foreign merchants and manufacturers due to artificially low rates paid by foreign shippers for delivery of their merchandise within the U.S. at rates not available to domestic shippers."[6] This concern has been echoed by Congress, which noted that under the rate structure established under the Universal Postal Union ("UPU"), "losses on international inbound letter post items totaled $170 million in FY2017, meaning that American mailers and shippers are not only being charged higher rates than foreign shippers for comparable products and

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[3] Comments from Dexas International, Ltd., Dkt. No. IM2018-1 (Jun. 11, 2018), at 2.
[4] Comments of Pretika Corporation, Dkt. No. IM2018-1 (Jun. 15, 2018), at 2.
[5] Comments of Range Kleen, Dkt. No. IM2018-1 (Jun. 15, 2018), at 1.
[6] U.S. Chamber of Commerce Motion to Unseal Library Reference and Motion to Request Issuance of Information Request, Dkt. No. R2018-1 (Oct. 13, 2017), at 1.

services, they are actually subsidizing many of these deliveries."[7] It makes no sense to treat foreign merchants as deserving of a Postal Service subsidy—a concern that the Commission has itself raised.[8] In FY 2017, revenue for Inbound Letter Post did not cover attributable costs, and "[n]egative contribution increased from $134.5 million in FY 2016 to $170.0 million in FY 2017."[9] UPS also shares the concerns of U.S.-based mailers that are potentially compelled to generate the revenues needed to cover losses generated by subsidizing foreign mailers on the delivery of inbound international parcels.

[7] Letter from Kenny Marchant to Steve Mnuchin, Secretary of the Treasury, Dkt. No. IM2018-1 (Apr. 20, 2018), at 1; *see also* Letter from Kenny Marchant, John Duncan, et al. to Rex Tillerson, Secretary of State and Megan Brennan, Postmaster General, Dkt. No. IM2016-1 (Nov. 8, 2017), at 1. USPS-FY2017-1 indicates that attributable costs for Inbound Single-Piece First-Class Mail Int'l totaled $463 million in FY2017 while revenues for the same product totaled only $293 million.

[8] Annual Compliance Determination Report, Dkt. No. ACR2017 (Mar. 29, 2018), at 68 ("The Commission reiterates its concern that the UPU pricing regime for the Inbound Letter Post product continues to result in noncompensatory terminal dues. As a result, domestic mailers are subsidizing the entry of Inbound Letter Post by foreign postal operators who use the same postal infrastructure but bear none of the burden of contributing to its institutional costs.").

[9] *Id.* at 65.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By *~~/s/ Steig D. Olson~~*

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